

ICPS newsletter

Ukrainian economists have adjusted their economic growth forecasts downward

The Consensus Forecast project participants have dampened their forecasts for Ukraine's economic development over 2002–2003. Nevertheless, experts predict a persisting financial stability in Ukraine

On 4 July 2002, a regular thematic seminar was held under the framework of the Consensus Forecast project conducted by the Ministry of Economy and European Integration of Ukraine, involving experts from the Support to Economic and Fiscal Reform project. This event gathered representatives of the following organisations: the Ministry of Economy of Ukraine, the Ministry of Finance of Ukraine, the National Bank of Ukraine, the International Monetary Fund, the Institute of Economic Forecasting of the National Academy of Sciences of Ukraine, the ING Barings Bank, the Institute of Economic Research and Political Consultations, and the International Centre for Policy Studies. The seminar participants presented and discussed their updated economic forecasts for 2002–2003, average indicators for which are given in the table (see overleaf; for comparison, the table also gives the macroeconomic indicators calculated by ICPS economists).

Assumptions

The consensus (average) forecast produced by the seminar participants is based on the following major assumptions, which most seminar participants agreed on:

External assumptions

- Economic revival in countries which are Ukraine's trading partners will improve external trade conditions, starting in H2'02.
- Protectionism in the USA, EU, China, and other countries in markets for ferrous metals and ferropducts will adversely affect the Ukrainian exports of this product group during 2002–2003.

Fiscal policy

- In 2003, the personal income tax will be cut and some benefits will be cancelled; simultaneously, experts do not envisage any changes as regards the VAT and

corporate profit tax during the forecast period.

- The government will gradually pay off the existing VAT refund arrears.

Monetary and price policy

- The NBU will continue to pursue the policy of retaining a stable real hryvnia exchange rate.
- In H2'02, inflation will speed up, due to raised electricity tariffs for housing and utility services.
- Over 2002, indirect government financing by the NBU will enlarge, because of the expected negative net external budget funding and smaller volumes of privatisation receipts.

Structural transformations

- Privatisation of infrastructure enterprises—including the Ukrtelekom OJSC and energy-distributing companies—will take place in 2003.

Risks

The key forecast risks are the following:

- long-standing political instability and inconsistency of public policy (in particular, piled-up debts on VAT reimbursements), which will keep investment risks high, and, consequently, investment volumes low, coupled with capital outflows;
- increased state interference, resulting in the economy's retreat into the "shadow";
- the recurring US economic slowdown in 2002 and more frequent anti-dumping investigations against Ukrainian products.

Changes in the forecast

Key changes compared to the April forecast are the following:

- A deteriorated forecast for real GDP—anticipated growth dropped by 0.2 percentage points in 2002 and by 0.4 percentage points in 2003—according to the forecasts, this indicator will drop to

4.9% and 5.3%, respectively. The forecast revision was induced by slower than forecasted consumption growth over 2002–2003 (by 0.8 and 0.2 percentage points, respectively), investments in 2002 (by 0.6 percentage points), and gross national savings in 2003 (by 0.5 percentage points);

- The lowered forecast for consumption and investment led to much slower import growth during the forecast period. Forecasted lower import volumes in contrast to the April forecast, as well as an increase in the forecast for transfers, prompted an increase in the forecasted indicator for the current account balance (by 399 million USD in 2002 and by 318 million USD in 2003);

- The improved current account balance became one of the factors inducing the increase in the forecast indicators for the NBU's international currency reserves (by 665 million USD in 2002 and 949 million USD in 2003) and a lower hryvnia depreciation (the forecasted average UAH/USD exchange rate dropped by 6 kopecks in 2002 and by 13 kopecks in 2003). The increased real demand for money and a steadier exchange rate, together with the absence of inflation shocks, allowed to diminish the forecasted inflation indicator by 1.4 percentage points in 2002 and by 0.2 percentage point in 2003. A more stable hryvnia and a stimulating NBU policy allowed to forecast a more rapid growth than estimated in the April forecast and a shrinkage of loan rates (in 2002, the forecasted average weighted annual loan rate dropped by 1.9 percentage points, and by 2.3 percentage points in 2003);

- The expected cancellation of tax benefits triggered forecast changes in the public finance sector; the forecasts for revenues and spending as a share of GDP (the share of revenues picked up by 0.9 percentage point in 2002, and by 0.2 percentage points in 2003; the share of spending rose by 0.2 percentage points in 2002, and by 0.3 percentage points in 2003). The forecast for the budget deficit was trimmed by 0.7

percentage points (in 2002) and by 0.1 percentage points (in 2003), because of lower than expected privatisation proceeds. ■

ICPS's economic development forecast for 2002–2003 can be accessed at the ICPS web-site: http://www.icps.kiev.ua/ukr/forecast_2002-2004.html

If you have any questions regarding the ICPS forecast, please contact Tetiana Sytnyk at tel. (38-044) 236-1292 or via email: tsytnyk@icps.kiev.ua.

Comparative table of macroeconomic forecasts for 2002–2003

Indicator	Average value		ICPS indicator		Indicator	Average value		ICPS indicator	
	2002	2003	2002	2003		2002	2003	2002	2003
Real sector	(mill UAH)				Medium- and long-term loans (net)	2.8	-0.2	—	—
Nominal GDP	221,417	253,833	221,600	254,800	Short-term capital (net)	-0.9	-1.1	—	—
Consumption	174,204	199,063	172,405	196,960	Exchange rate,	UAH/USD			
private	128,510	148,666	128,971	149,568	Average annual	5.37	5.54	5.36	5.55
public	44,244	48,808	43,434	47,393	Year-end	5.46	5.64	5.45	5.65
Investment	45,262	53,995	45,428	53,763	Public finances*	(mill UAH)			
Gross accumulation of fixed capital	45,024	52,453	45,206	52,998	Total revenues	57,955	62,678	56,730	64,464
private	39,696	46,467	—	—	Total expenditures	59,516	65,025	57,616	68,286
public	5,475	5,651	—	—	Overall balance	-1,781	-2,031	-866	-3,822
Net exports of goods and non-agency services	1,570	548	0	-2,498	<i>Financing items</i>	1,364	990	—	—
Gross national savings	50,532	56,832	—	—	Privatisation	2,500	2,167	—	—
Real sector	(index, year-over-year)				Domestic borrowing	44	-582	—	—
Real GDP	104.9	105.3	104.5	105.5	Foreign borrowing	-1,181	-594	—	—
Consumption	105.8	105.0	105.6	105.5	Public finances*	(% of GDP)			
private	106.6	106.2	107.0	107.0	Total revenues	26.2	24.8	25.6	25.3
public	103.2	101.2	101.5	100.7	Total expenditures	26.9	25.7	26.0	26.8
Investments	107.0	108.9	106.0	110.0	Overall balance	-0.8	-0.8	-0.4	-1.5
Gross national savings	103.7	106.0	—	—	<i>Financing items</i>	0.6	0.4	—	—
Inflation	(index)				Privatisation	1.1	0.9	—	—
GDP Deflator					Domestic borrowing	0.0	-0.2	—	—
(average annual)	104.8	108.6	106.2	108.1	Foreign borrowing	-0.5	-0.2	—	—
CPI (average annual)	104.2	108.7	103.4	107.3	Money and credit	(mill UAH)			
Dec. to previous Dec.	106.8	107.0	105.8	105.5	Monetary base, year-end	28,937	35,183	29,280	38,064
External Sector	(mill USD)				Dec. to previous Dec., %	25.5	21.4	27.0	30.0
Current account	1,050	726	790	350	Money supply (M3), year-end	55,585	68,284	45,555	60,588
Export volumes	22,097	23,487	22,000	23,490	Dec. to previous Dec., %	27.0	22.9	30.0	33.0
Import volumes	-21,826	-23,418	-22,010	-23,940	NBU discount rate, %, average annual	9.8	8.3	—	—
Revenues balance	-788	-853	-730	-770	Average weighted interest rate on commercial bank hryvnia loans, %, average annual	24.8	21.0	25.0	23.0
Official transfers (net)	1,621	1,576	1,530	1,570	NBU international reserves, mill. USD	4,085	4,898	3,865	4,765
Capital account	-1,082	-753	-790	-350	Social indicators	(thousands of people)			
FDI	756	920	700	1,100	Population	48,427	48,079	48,700	48,400
Medium- and long-term loans (net)	1,155	-84	—	—	% change over previous year	-0.8	-0.7	-0.6	-0.6
Short-term capital (net)	-381	-522	—	—	Number of employees enrolled in all sectors of economic activities, year-end	21,739	21,822	—	—
External Sector	(% of GDP)				% change over previous year	0.1	0.8	—	—
Current account	2.5	1.5	1.9	0.8	Number of registered unemployed, year-end	1,067	1,132	—	—
Export volumes	53.6	51.3	43.2	41.6	registered unemployment, year-end, %	3.9	4.0	4.0	4.0
Import volumes	52.9	51.1	-44.5	-44.4	Average wage, UAH	367.4	427.1	365.6	408.5
Revenue balance	-1.9	-1.9	-1.8	1.7	Cash disposable incomes of population, billions UAH	111.6	132.3	—	—
Official transfers (net)	3.9	3.4	3.7	3.4	Cash disposable incomes of population, % change over last year	7.8	9.3	12.0	7.0
Capital account	-2.6	-1.6	-1.9	-0.8					
FDI	1.8	2.1	1.7	2.4					

* IMF methodology

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